

Module 6—Exemptions

Tax Tutorial

In this tax tutorial, you will learn about [exemptions](#).

There are two types of exemptions:

- personal exemptions
- dependency exemptions

Each exemption reduces the income that is subject to tax by the exemption amount.

The exemption amount changes every year.

- For 2007, the exemption amount is \$3,400.

A taxpayer cannot claim an exemption for a person who can be claimed as a dependent on another tax return.

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Personal Exemptions

Personal exemptions can be claimed for the taxpayer and spouse.

Each personal exemption reduces the income that is subject to tax by the exemption amount.

- For 2007, the exemption amount is \$3,400.

To claim a personal exemption for a spouse,

- the taxpayers must be married by the last day of the year, or
- the spouse must have died during the year, and the taxpayer must not have remarried during the year
- on separate return, if married filing separately, spouse must have no gross income.

A taxpayer cannot claim a personal exemption for the taxpayer or the spouse if he or she can be claimed as a dependent on another tax return.

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Quick Check!

Answer the following multiple-choice questions about exemptions by clicking on the correct answers. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1) Omar and Nadia are married and file a joint return. Both have gross income. Neither can be claimed as a dependent on any other tax return. How many personal exemptions can Omar and Nadia claim on their tax return?

- A. 0 No answer given: the correct answer is C. Because they cannot be claimed dependents on any other tax return, Omar and Nadia can claim two personal exemptions-one for Omar and one for Nadia.
- B. 1
- C. 2

2) Winona is 16 years old and a full-time student. She earned \$3,200 during the summer. She can be claimed as a dependent on her parents' tax return. How many personal exemptions can Winona claim on her tax return?

- A. 0 No answer given: the correct answer is A. Because she can be claimed as a dependent on her parents' tax return, Winona cannot claim a personal exemption for herself on her tax return.
- B. 1
- C. 2

3) Della and Brad are married. Della's filing status is married filing a separate return. Brad also uses married filing a separate return filing status. Neither can be claimed as a dependent on any other tax return. How many personal exemptions can Della claim on her tax return?

- A. 0 No answer given: the correct answer is B. Della can claim one personal exemption for herself on her tax return. She cannot claim a personal exemption for Brad.
- B. 1

C. 2

4) Tonya and Charles filed a joint return in 2006. Charles died in 2007. Tonya has not remarried. How many personal exemptions can Tonya claim on her 2007 tax return?

A. 0 No answer given: the correct answer is C. Because she did not remarry, Tonya can claim two personal exemptions on her 2007 joint tax return-one for herself and one for Charles.

B. 1

C. 2

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Dependency Exemptions

Remember that a dependent is a person other than the taxpayer who entitles the taxpayer to claim a dependency exemption.

The term "dependent" means a "qualifying child" or a "qualifying relative."

One exemption is allowed for each person claimed as a dependent. To claim a dependency exemption for a qualifying child or a qualifying relative, these three tests must be met:

1. Dependent Taxpayer Test
2. Joint Return Test
3. Citizen or Resident Test

To be a qualifying child or a qualifying relative the following test must also be met.

Tests To Be a Qualifying Child

1. The child must be your son, daughter, stepchild, eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.
2. The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.
3. The child must have lived with you for more than half of the year.
4. The child must not have provided more than half of his or her own support for the year.
5. If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.

Tests To Be a Qualifying Relative

1. The person cannot be your qualifying child or the qualifying child of anyone else.

2. The person either (a) must be related to you in one of the ways listed under *Relatives who do not have to live with you*, or (b) must live with you all year as a member of your household.
3. The person's gross income for the year must be less than \$3,400.
4. You must provide more than half of the person's total support for the year.

¹There is an exception for certain adopted children.

²There are exceptions for temporary absences, children who were born or died during the year, children of divorced or separated parents, and kidnapped children.

³There is an exception if the person is disabled and has income from a sheltered workshop.

⁴There is an exception for multiple support agreements.

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Exemptions—Comprehensive Example

Brian and Sylvia Lyons are married, live in California, and file a joint return. They have two children, Jocelyn 10 and Libby 12, who lived with them the entire year. The Lyonses were the sole supporters of their children. Neither child had any income during the year. In addition, Sylvia's cousin Richard Hayes lived with the Lyonses for the entire year. Richard earned \$400 mowing lawns. The Lyonses provided more than half of Richard's support. The Lyonses are not claimed dependents on anyone else's return.

The Lyonses can claim five exemptions:

- two personal exemptions (one for Brian and one for Sylvia)
- three dependency exemptions (one each for Jocelyn, Libby, and Richard)

Dependency Tests for the Lyonses

Exemptions for Dependents		
	Qualifying Child	Qualifying Relative
1. Dependent taxpayer test	Jocelyn and Libby cannot claim self or anyone else	Richard cannot claim self or anyone else
2. Joint return test	Not married and do not file returns	Not married and does not file a return
3. Citizen or resident test	Citizen	Citizen

Remember the definition of a dependent. A dependent is a **qualifying child** or **qualifying relative** who must meet additional tests.

Qualifying Child

	Definition	How do Jocelyn and Libby qualify?
1. Relationship test	The child must be your son, daughter, stepchild, eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.	They are the daughters.
2. Age test	The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.	They are under 19, ages 10 and 12.
3. Residency test	The child must have lived with you for more than half of the year.	They lived with parents the entire year which is more than half.
4. Support test, and	The child must not have provided more than half of his or her own support for the year.	They did not provide more than half of their own support.

5. Special test for qualifying child of more than one person.

If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.

No one else can claim them.

Qualifying Relative		
	Definition	How does Richard qualify?
1. Not a qualifying child test	The person cannot be your qualifying child or the qualifying child of anyone else.	He is a cousin, so he is not a qualifying child.
2. Member of household ore relationship test	The person either (a) must be related to you in one of the ways listed under Relatives who do not have to live with you, or (b) must live with you all year as a member of your household.	He lived with them the entire year.
3. Gross income test, and	The person's gross income for the year must be less than \$3,400.	He earned only \$400.

He did not provide more than half of his support.

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Quick Check!

Answer the following multiple-choice questions about exemptions by clicking on the correct answers. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1) Bert and Maria are married and file a joint return. Bert and María cannot be claimed as dependents on anyone else's tax return. They have two children, ages 14 and 16 who lived with them all year in New York. They were the sole supporters of the children. Neither child had any income during the year. Assume the joint return and citizenship tests are met. How many total exemptions can Bert and Maria claim on their joint tax return?

- A. 1 No answer given: the correct answer is D. Bert and Maria can claim two personal exemptions, one for Bert and one for María. Also, they can claim two dependency exemptions, one for each child.
- B. 2
- C. 3
- D. 4

2) Dr. and Mrs. Fernandez are married, live in North Carolina and file a joint return. The Fernandezes cannot be claimed as dependents on anyone else's tax return. Their daughter, Nanita, is 19 years old, single and a full-time student away at college. Nanita earned \$4,500 during the year, but her parents provided more than half of her support. Which of the following statements is true?

- A. Dr. and Mrs. Fernandez can claim three exemptions on their tax return, and Nanita can claim one exemption on her tax return. No answer given: the correct answer is C. Dr. and Mrs. Fernandez can claim Nanita as a dependent because she is a full-time student under 24 years of age and her parents provided more than half of her support. Dr. and Mrs. Fernandez can claim three exemptions on their tax return: two personal exemptions and one dependency exemption. Nanita cannot claim a personal exemption on her tax return because she can

be claimed as a dependent on her parents' tax return.

B. Dr. and Mrs. Fernandez can claim two exemptions on their tax return, and Nanita can claim one exemption on her tax return.

C. Dr. and Mrs. Fernandez can claim three exemptions on their tax return, and Nanita cannot claim any exemptions on her tax return.

D. Dr. and Mrs. Fernandez can claim two exemptions on their tax return, and Nanita cannot claim any exemptions on her tax return.

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Module 6—Exemptions

Lesson Summary

There are two types of exemptions:

- personal exemptions—for the taxpayer and spouse
- dependency exemptions—for dependents

Each exemption reduces the income that is subject to tax by the exemption amount

- For 2007, the exemption amount is \$3,400. A taxpayer cannot claim an exemption for a person who can be claimed as a dependent on another tax return.

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Module 6—Glossary

Glossary

exemption —amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions: personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

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